

1H16 financial results

Driving profit and dividend growth

16 February 2016



Outline

Operating performance

Brian Benari
Managing Director &
Chief Executive Officer

Financial results

Andrew Tobin
Chief Financial Officer

Strategy update

Outlook

Brian Benari
Managing Director &
Chief Executive Officer

1H16 – six months ended 31 December 2015

Highlights

Driving profit and dividend growth

Operating performance

Strong profit growth of 18% with disciplined cost management

Shareholders

Strongly capitalised and interim dividend up 10%

Life

Strong earnings growth from higher AUM and margin expansion

Funds Management

Diversifying income streams through business expansion

Growth

Life – Industry moving ahead of regulation to meet retiree demand

FM – Capitalising domestically and increasing global offering

Outlook

Challenger operating in high growth markets

1H16 – six months ended 31 December 2015

Group operating performance

Strong profit growth of 18% with disciplined cost management

AUM \$57.6bn +1%	<ul style="list-style-type: none"> ▶ Group AUM up 10% excluding Kapstream sale - \$5.4bn of FUM derecognised¹ ▶ Life AUM up 6% and Funds Management FUM up 8% (exc. Kapstream & Dexion)
Normalised NPAT² \$182m +18%	<ul style="list-style-type: none"> ▶ Driven by EBIT growth (+16%) with lower effective tax rate ▶ Significant operating leverage – cost to income ratio down 60 bps on 1H15
Normalised EPS 32.6 cps +13%	<ul style="list-style-type: none"> ▶ EPS growth from higher normalised NPAT partly offset by higher share count ▶ Share count up 4% following 1H15 equity raise
Statutory NPAT² \$234m +80%	<ul style="list-style-type: none"> ▶ Positive investment experience (+\$30m) and significant one-off items (+\$22m) ▶ Profit on sale of Kapstream (July 2015) included in 1H16 significant items
Normalised ROE 18.1% +70 bps	<ul style="list-style-type: none"> ▶ Meeting 18% RoE (pre-tax) target and committed to target ▶ Life RoE (pre-tax) up 90 bps to ~19.8%

1H16 – six months ended 31 December 2015

1. Following the sale of Kapstream in July 2015, Fidante Partners will no longer receive distribution fees on Kapstream institutional FUM (\$5.4bn), resulting in \$5.4bn of Fidante Partners' FUM derecognised on 1 July 2015. Fidante Partners' earnings over the short and medium term are not expected to be impacted by the sale given revised and ongoing retail distribution agreements.
2. Normalised profit framework and a reconciliation to statutory net profit after tax is disclosed in the Directors' Report (section 2.2) of the Challenger Limited Interim Financial Report 2016.

Group operating performance

Strongly capitalised and interim dividend up 10%

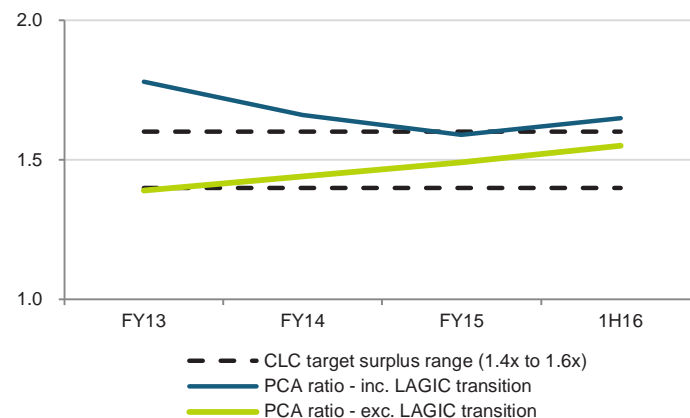
Regulatory capital

- Strongly capitalised
 - top end of guidance range (1.4x to 1.6x)¹ at 31 January 2016
- Life asset portfolio
 - quality strengthened in 1H16
 - all assets marked to market
 - continues to outperform assumptions

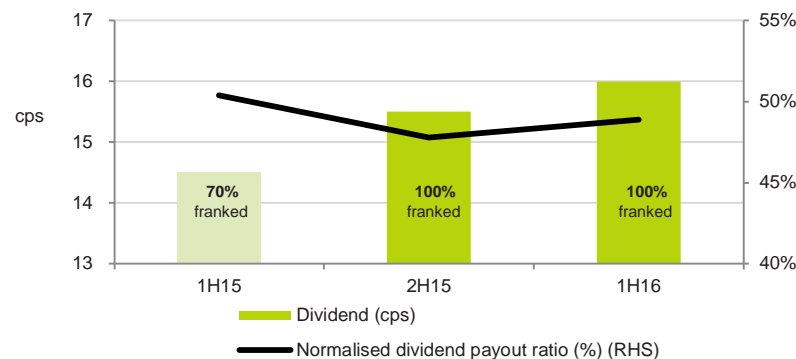
Shareholder dividends

- 2016 interim dividend 16.0 cps
 - up 10% on 2015 interim dividend
 - dividend fully franked
 - 49% dividend payout ratio²

CLC PCA ratio



Dividend and payout ratio²



1H16 – six months ended 31 December 2015

1. CLC target surplus range based on asset allocation and economic circumstances. Currently in the range of 1.4 to 1.6 times.
2. Dividend payout ratio based on normalised EPS.

Life operating performance

Strong earnings growth from higher AUM and margin expansion

Average AUM \$13.0bn +12%	<ul style="list-style-type: none">▶ Higher average AUM driven by net book growth▶ High quality investment portfolio meeting 18% RoE (pre-tax) target
Life COE \$293m +14%	<ul style="list-style-type: none">▶ Driven by average AUM growth (+12%) and Life COE margin expansion▶ Life COE margin up ~10 bps on 1H15
Life EBIT \$249m +15%	<ul style="list-style-type: none">▶ Life EBIT growth driven by higher Life COE (+14%)▶ Cost to income ratio down 130 bps through operating leverage
Annuity sales \$1.6bn +4%	<ul style="list-style-type: none">▶ Annuity sales up 10% excluding care products¹▶ Strong growth in term annuities (+12%) and lifetime sales up (+34%²) on 2H15
Annuity growth \$270m +3.1%	<ul style="list-style-type: none">▶ Annuity net book growth supported by strong reinvestment rate at ~80%³▶ Additional net book growth from GIR product (+\$77m) taking book growth to 3.6%

1H16 – six months ended 31 December 2015

1. Sales of Care Annuity discontinued in November 2014. Care Annuity sales were \$100m in 1H15 and contributed 1.3% to 1H15 net book growth.

CarePlus, a replacement aged care product was launched in mid-1H16 with \$14m of sales in 1H16.

2. Growth in lifetime annuity sales exclude CarePlus sales (\$14m) in 1H16.

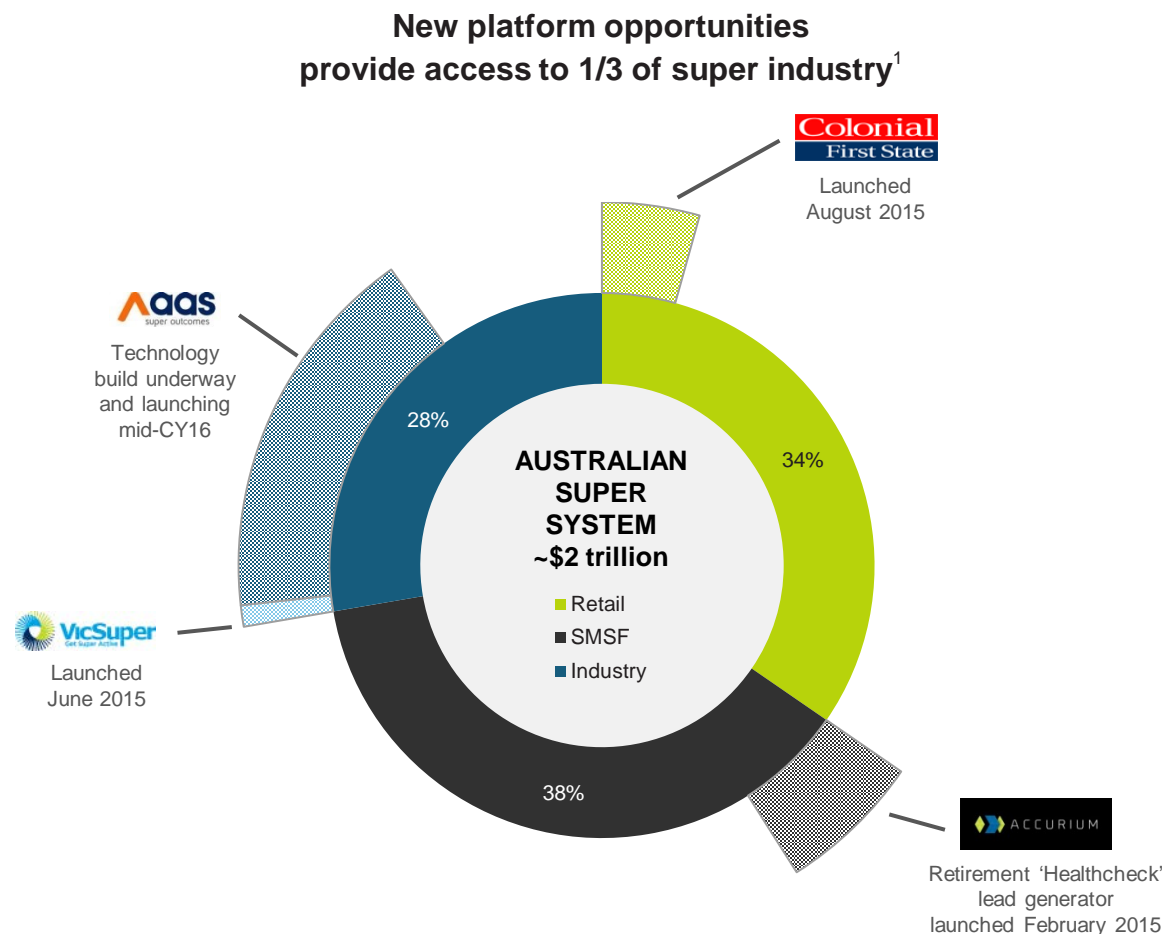
3. Reinvestment rate for term annuities with a residual capital value of 50% or more on maturity.

Life operating performance

Annuities on platform expanding Life's distribution footprint

Annuities on platform

- Increases Challenger's access to Australian superannuation market
- 5% of 1H16 annuity sales via new platform initiatives
- Digital connectivity enables
 - ✓ efficient adviser access to Challenger annuities
 - ✓ annuities to be combined with ABPs²
 - ✓ super funds to offer Comprehensive Income Products for Retirement (CIPRs)



1H16 – six months ended 31 December 2015

1. Represents either funds under administration/funds under management for each platform/super fund. For CFS, estimated that 70% of total FirstChoice and FirstWrap FUM (~\$95bn) is in superannuation products. Total super system FUM excludes public sector and corporate segments.
2. Account-based pensions (ABPs).

Life operating performance

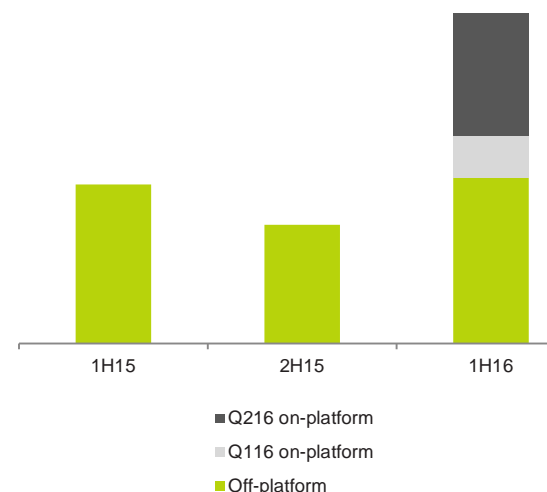
Colonial expanding Life's distribution footprint

Colonial First State (CFS)

- Capability launched August 2015
- Award winning digital innovation
 - Investment Trends 2015 best new functionality award
- Significant increase in volumes
 - up 100% on 1H15¹
 - sales building month-on-month
- Attracting new advisers
 - 45% of CFS platform sales from new advisers²
- High quality sales
 - 21% Liquid Lifetime and 79% term annuities
- Retirement income modelling using annuities as part of the retirement solution
- Expect other retail platforms to follow Colonial



Colonial - Challenger annuity volumes



1H16 – six months ended 31 December 2015

1. Excludes care products (Care Annuity in 1H15 and CarePlus in 1H16).
2. Defined as having not written a Challenger annuity in the last three years.

Life operating performance

New market segments expanding Life's distribution footprint

Industry fund segment

VicSuper – launched June 2015

- Australia's first CIPR – backed by Challenger annuities
- Embedding income layering in advice process
- VicSuper lifetime product design to be rolled out across industry fund segment

AAS – launching mid-CY16

- Leveraging VicSuper and Colonial capability
- Fintech solution to be used across industry fund channel
- 3 AAS clients connecting Challenger annuities in mid-CY16
- Expect more AAS clients to connect

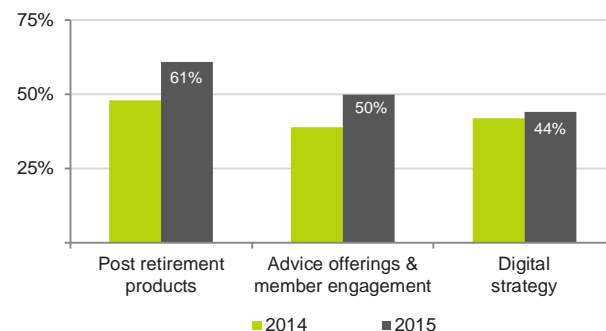
SMSF segment

- Accurium Healthcheck launched February 2015
- ~10,000 assessments to December 2015¹
- Includes ~1,000 bespoke assessments

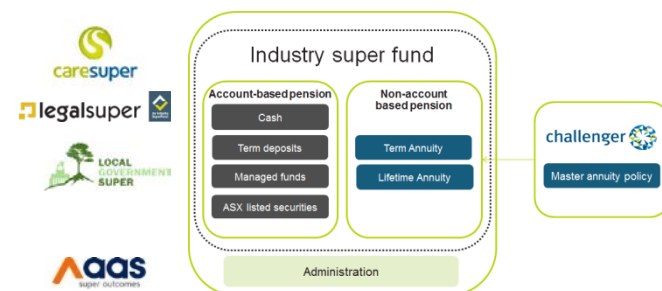
1H16 – six months ended 31 December 2015

1. Since November 2015 all Accurium actuarial certificates incorporate an automated indicative Healthcheck.

2015 ASFA/PwC CEO superannuation survey
#1 issue is post retirement



Challenger's CIPR solution Annuities combined with other products



Funds Management operating performance

Diversifying income streams through business expansion

Average FUM \$54.8bn +4%	<ul style="list-style-type: none">▶ Average FUM up 15% excluding impact of Kapstream sale in July 2015▶ Equities as percentage of Fidante Partners' FUM – up from 39% to 45% in 1H16
Net income \$67m +20%	<ul style="list-style-type: none">▶ Fidante Partners – income up \$9m (+29%) with 1H16 including Dexion▶ CIP¹ – income up \$2m from new 3rd party property mandates
Normalised EBIT \$22m +4%	<ul style="list-style-type: none">▶ EBIT up with higher income offset by higher expenses▶ Expenses up \$10m – including Dexion expense base in 1H16
Net organic flows² +0.5bn	<ul style="list-style-type: none">▶ Fidante Partners' organic net flows +\$1.0bn across range of managers▶ CIP¹ – net flows -\$0.4bn from lower Life fixed income mandate
RoE (pre-tax) 28.4%	<ul style="list-style-type: none">▶ RoE lower following Dexion acquisition▶ Capital light business – average net assets ~\$150m


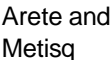



1H16 – six months ended 31 December 2015

1. Challenger Investment Partners (CIP).

2. Funds Management 1H16 net flows were -\$4.4bn, and include -\$5.4bn following the sale of Kapstream in July 2015 and +\$0.5bn following the acquisition of Dexion Capital in July 2015.

Funds Management operating performance

Scalable and diversified platform with growth opportunities

STRATEGIC INTENT		Fidante Partners		
				<ul style="list-style-type: none">• Optimise existing boutiques and add new ones• Add global product and distribution• Enhance alternative assets capability
EXECUTION OF STRATEGY		Challenger Investment Partners (CIP)		
				<ul style="list-style-type: none">• Broaden product capability• Expand 3rd party client mandates
		Fidante Partners 		Challenger Investment Partners (CIP)
		Fidante Partners Australia	Fidante Partners Europe (Dexion)	
		<ul style="list-style-type: none">• Key boutique developments <div><div></div><div>Arete and Metisq</div><div>Exited businesses in 1H16 No revenue impact</div></div> <div><div></div><div>Business expanded into global equities</div></div> <div><div></div><div>New credit and nominal bond strategy</div></div> <div><div></div><div>New long only funds</div></div>	<ul style="list-style-type: none">• Significant step up in European presence• Established global distribution and product capability• Integration substantially complete• Rebrand underway• Encouraging boutique net flows in 1H16 with further commitments received	<ul style="list-style-type: none">• Investment professionals added to expand 3rd party fixed income offering• New 3rd party property clients<ul style="list-style-type: none">– \$0.5bn of acquisitions– ongoing property management services– further opportunities• 27% of FUM sourced from 3rd party clients – up 3% in 1H16

1H16 – six months ended 31 December 2015

Highlights

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Shareholders

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Life

Strong earnings growth from higher AUM and margin expansion

Funds Management

Diversifying income streams through business expansion

1H16 – six months ended 31 December 2015

1H16 Financial results

Andrew Tobin

Chief Financial Officer

16 February 2016

1H16 – six months ended 31 December 2015

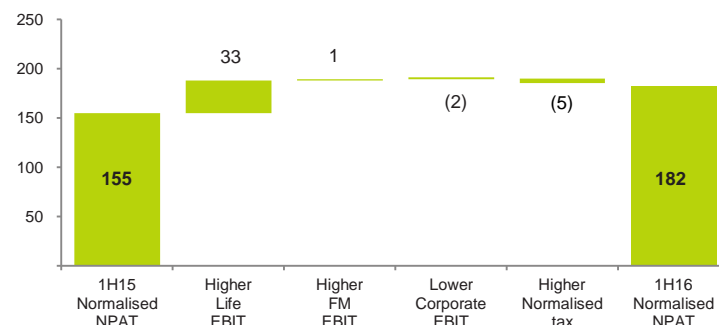
Group financial performance

Strong operating results from AUM growth and scale benefits

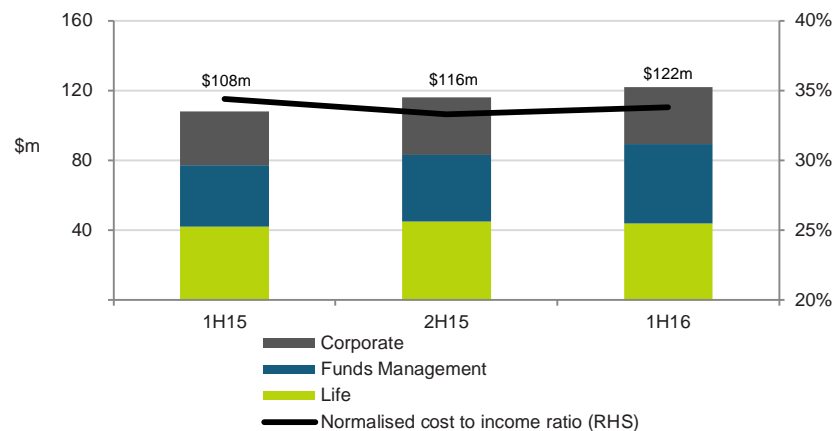
Financial performance (\$m)	1H16	1H15	Change
Life	249	216	15%
Funds Management	22	21	5%
Corporate	(32)	(30)	(7%)
Normalised EBIT	239	207	16%
Interest expense	(2)	(2)	-
Normalised tax	(55)	(50)	(10%)
Normalised NPAT	182	155	18%
Investment experience (post-tax)	30	(25)	n/a
Significant items (post-tax)	22	-	n/a
Statutory NPAT	234	130	80%

Key metrics	1H16	1H15	Change
AUM (\$bn)	57.6	57.2	1%
Normalised cost to income (%)	33.8	34.4	60 bps
Normalised RoE (pre-tax) ¹ (%)	18.1%	17.4%	70 bps
EPS – normalised (cps)	32.6	28.8	13%
EPS – statutory (cps)	41.9	24.2	73%

Movement in normalised NPAT (\$m)



Expenses



1H16 – six months ended 31 December 2015

1. Normalised RoE calculated as normalised NPBT divided by average net assets.

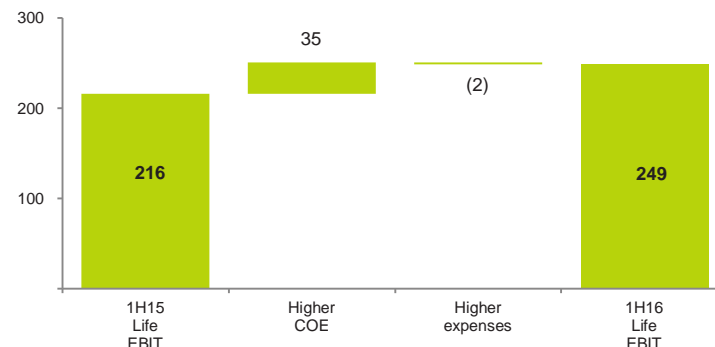
Life financial performance

Higher COE driven by AUM growth and margin expansion

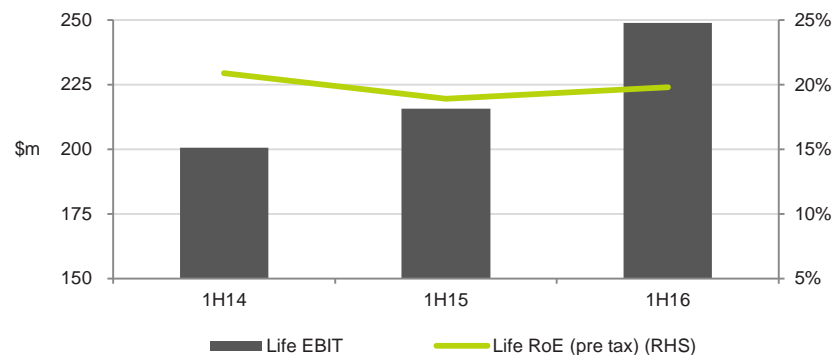
Financial performance (\$m)	1H16	1H15	Change
Normalised COE	293	258	14%
Expenses	(44)	(42)	(5%)
Life EBIT	249	216	15%
Investment experience (post-tax)	30	(25)	n/a

Key metrics	1H16	1H15	Change
AUM (average) - \$bn	13.0	11.6	12%
Annuity book growth (%)	3.1%	7.2%	(410 bps)
Normalised cost to income (%)	15.0%	16.3%	130 bps
Normalised RoE (pre-tax) ¹ (%)	19.8%	18.9%	90 bps

Movement in Life EBIT (\$m)



Life EBIT and normalised RoE



1H16 – six months ended 31 December 2015

1. Normalised RoE calculated as normalised EBIT divided by average net assets.

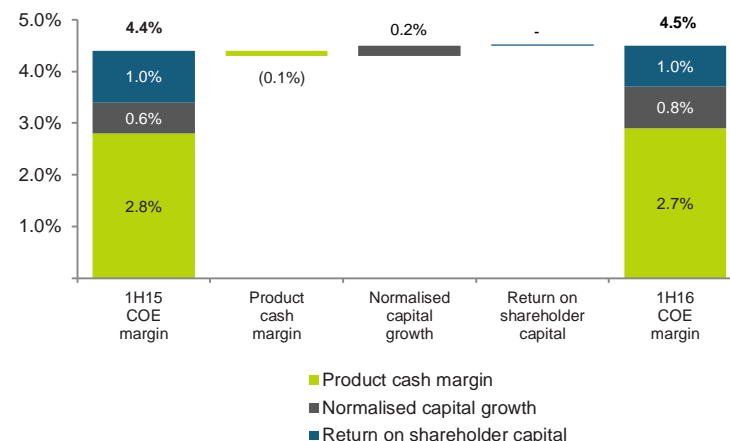
Life margins

Cash Operating Earnings (COE) margin expansion

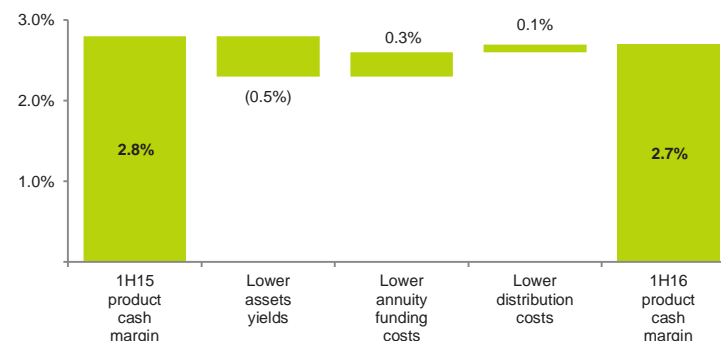
1H16 Life COE margin +10 bps

- Product cash margin (-10 bps)
 - lower fixed income yields, partially offset by higher property and equity yields (-50 bps)
 - lower annuity funding costs (+30 bps)
 - lower distribution costs (+10 bps)
 - Normalised capital growth (+20 bps)
 - increased property allocation
 - partially offset by lower equities growth assumption (~10 bps)
 - Return on shareholder capital (unchanged)
- Life COE margin – other income**
- Life Risk transactions benefit other income
 - other income margin unchanged in 1H16
 - PV of Life Risk future profits up \$64m in 1H16 to \$244m

Life COE margin – 1H15 to 1H16



Life product cash margin – 1H15 to 1H16



1H16 – six months ended 31 December 2015

Life sales

Strong sales momentum across annuity and GIR products

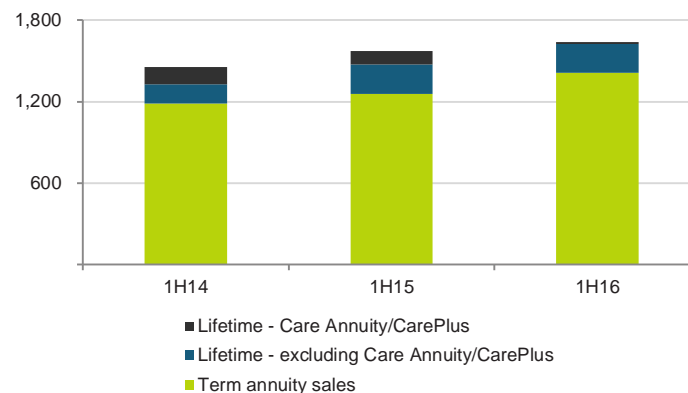
Annuity sales

- 1H16 annuity sales up 4% to \$1.64bn
 - Annuity sales up 10% excluding care products¹
- Term annuity sales up 12%
- Lifetime sales down due to Care Annuity discontinuance
 - replacement CarePlus launched mid-1H16
 - CarePlus approved by majority of major hubs in December 2015 & January 2016
 - \$14m of CarePlus sales in 1H16 (majority in December)

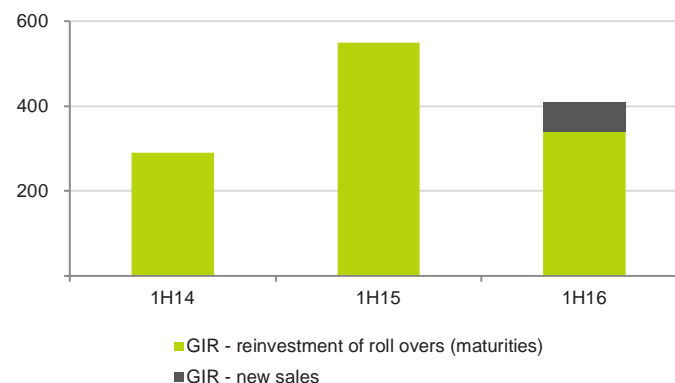
Guaranteed Index Return (GIR) sales

- All 1H16 GIR maturities reinvested
- New GIR sales of \$70m

Annuity sales (\$m)



GIR sales (\$m)



1H16 – six months ended 31 December 2015

1. Sales of Care Annuity discontinued in November 2014 with \$100m of sales in 1H15. Replacement aged care product (CarePlus) launched in August 2015 with \$14m of sales in 1H16.

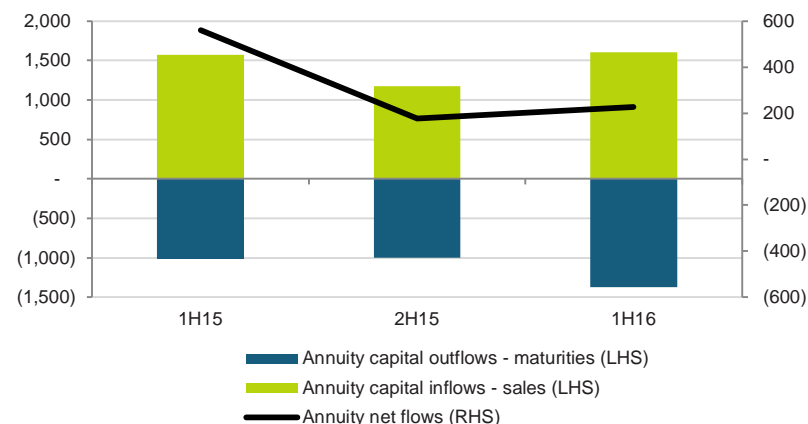
Life net book growth

Total book growth of 3.6% in 1H16

Annuity net book growth

- 1H16 annuity net book growth \$270m or +3.1%
- Net book growth impacted by Care Annuity
 - 1H15 Care Annuity net book growth 1.3%
 - 1H16 Care Annuity/CarePlus net book growth -0.3%¹

Annuity net book growth (\$m)



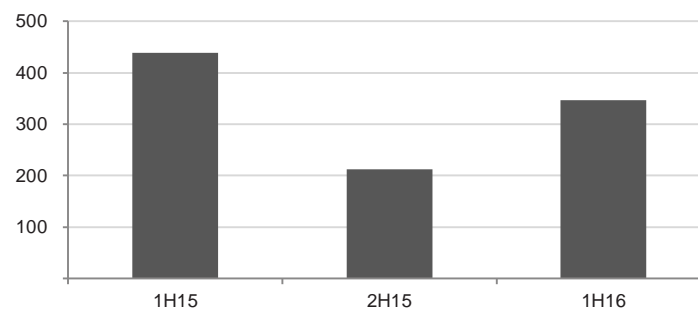
Guaranteed Index Return (GIR)

- GIR net book growth +\$77m² in 1H16

Life net book growth

- Total Life net book growth \$347m or +3.6%³

Life net book growth (\$m)

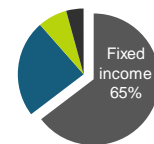


1H16 – six months ended 31 December 2015

1. Care product (Care Annuity and CarePlus) 1H16 net book growth.
2. Includes \$70m new mandate and \$7m of distributions reinvested.
3. Life net book growth calculated as net flows (\$347m) divided by the sum of opening period annuity liability (\$8,693m) and Guaranteed Index Return liability (\$945m).

Life investment portfolio

High quality fixed income portfolio meeting 18% RoE target

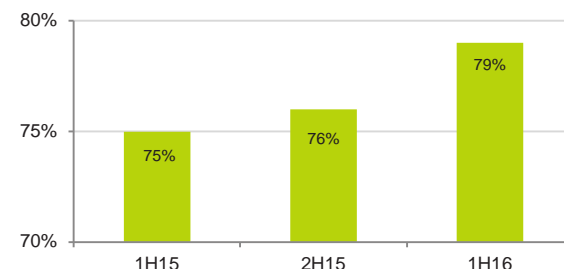


Fixed income

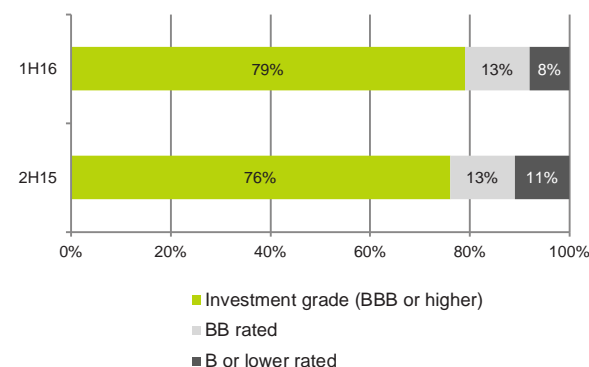
65%
of portfolio

- 79% investment grade
 - up from 75% in 1H15
 - 'B' and lower down \$0.2bn in 1H16
- Expansion of fixed income credit spreads in 1H16
- Diversified fixed income portfolio
 - over 1,100 securities
- 1H16 credit default losses 6 bps
 - lower than long term assumption of 35 bps p.a.
- Fixed income direct origination
 - portfolio continues to perform
 - expected to remain around 30% of total fixed income portfolio
 - all securities marked to market
- Fixed income asset disclosures enhanced in Analyst Pack

Fixed income investment grade (%)

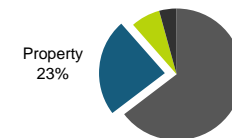


Fixed income credit quality



1H16 – six months ended 31 December 2015

Life investment portfolio



Property portfolio continues to meet 18% RoE target

Property

23%
of portfolio

- Property remix ongoing with focus on multi-tenant properties
 - ~\$350m of disposals in 1H16
 - 13% premium to book
 - ~\$430m of acquisitions in 1H16
 - average cap rate 7.2%
 - 62% of portfolio now multi-tenanted¹ (up from 34% in FY12)
- Portfolio valuations
 - all property disposals at premium to book
 - 49% of portfolio externally valued in 1H16
 - property valuation gains +2%² in 1H16
- Weighted average portfolio cap rate
 - Australian direct 7.1%
- Occupancy rate 97% and WALE of 4.6 years
- Property asset disclosures enhanced in Analyst Pack

1H16 key Australian property disposals

Property	Sector	Price ³ \$m	Premium to book
Jam Factory	Retail	160	23.3%
Forum, Cisco	Office	112	1.1%
Forum, Verizon	Office	78	9.2%
Total disposals		\$350	13.0%

1H16 key Australian property acquisitions

Property	Sector	Price ⁴ \$m	Cap rate %
215 Adelaide Street	Office	224	7.0
Channel Court	Retail	76	8.0
North Rocks	Retail	128	7.0
Total acquisitions		\$428	7.2

1H16 – six months ended 31 December 2015

1. Calculated on a gross basis.

2. Excludes property disposals (average 13% premium to book) and property transaction costs.

3. Represents net sale price (adjusted for committed capex and incentives) and excludes any disposal costs such as agents commission.

4. Represents acquisition price.

Life investment experience

Liability mark-to-market partially offset by asset experience

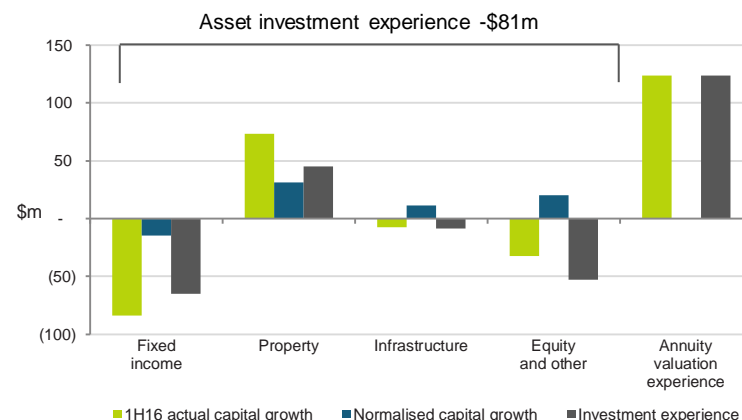
Asset investment experience (-\$81m)

- Fixed income (-\$65m) impacted by expansion in credit spreads
 - for example A-rated 3 year credit spreads increased by ~65 bps¹ in 1H16
- Property (+\$45m) exceeded normalised growth assumption
 - strong property valuation gains
 - valuation gains absorbed acquisition costs written off (\$22m in 1H16)
 - all properties sold above book value
- Equities and other (-\$53m) impacted by global equity market volatility

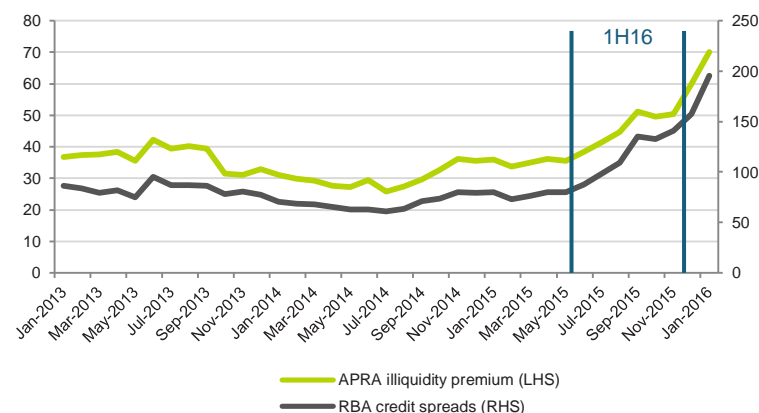
Annuity liability valuation experience (+\$124m)

- Positive valuation gain from higher life contract liability discount rate
 - increase in illiquidity premium

Investment experience (pre-tax) +\$43m



Movement in illiquidity premium (bps)²



1H16 – six months ended 31 December 2015

1. RBA aggregated measures of Australian corporate bond spreads and yields.
 2. In accordance with APRA Prudential Standards (LAGIC) and Australian Accounting Standards, Challenger Life values term annuities at fair value and lifetime annuities using a risk-free discount rate, both of which are based on the Australian Commonwealth Government Bond curve plus an applicable illiquidity premium. The illiquidity premium shown has been calculated based on APRA LPS112 which is used for prudential capital purposes.

Regulatory capital

Strongly capitalised to support future growth

3 year LAGIC transition now complete

- Final LAGIC transition balance (\$108m) amortised on 1 January 2016

CLC excess capital and PCA ratio¹

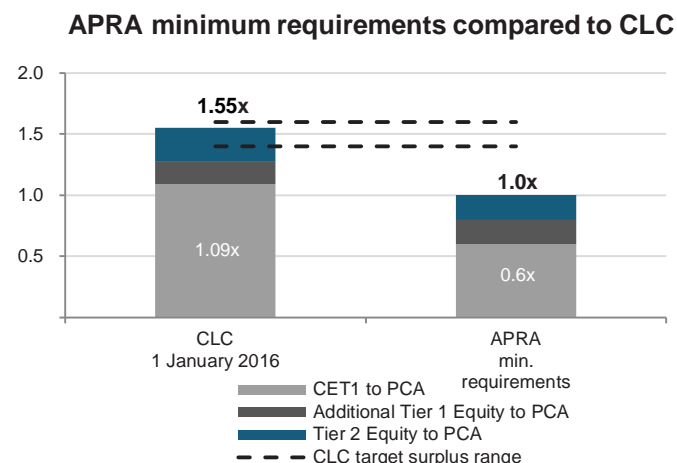
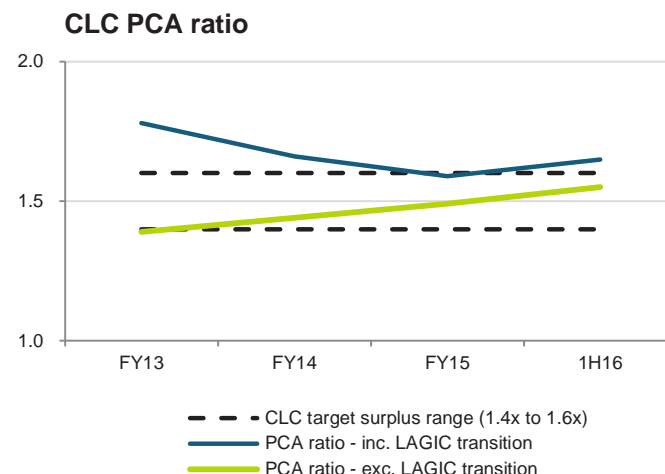
- 31 December 2015
 - \$1.1bn of excess regulatory capital
 - \$0.1bn of additional Group cash
- 1 January 2016 (excluding final LAGIC transition)
 - PCA ratio 1.55x – upper end of target range (1.4x to 1.6x)²
 - CET1 ratio³ 1.09x
- 31 January 2016
 - PCA ratio – top end of target range (1.4x to 1.6x)²

Capital flexibility for growth

- Excess capital funds book growth of ~\$1bn⁴ (~10%)
- Life's annual retained earnings funds book growth of ~\$1bn p.a.⁴ (~10%)

1H16 – six months ended 31 December 2015

1. Challenger Life Company (CLC) total regulatory capital base divided by Prescribed Capital Amount (PCA).
 2. CLC target surplus range based on asset allocation and economic circumstances. Currently in the range of 1.4 to 1.6 times.
 3. CET1 capital to Prescribed Capital Amount (PCA).
 4. Capital to support growth based on current asset mix, assumes no adverse investment experience and assumes a Life dividend payout ratio of 50% and target surplus ratio of 1.4 times.

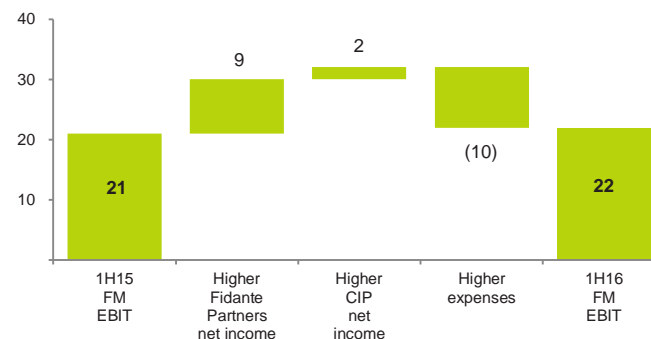


Funds Management financial performance

Diversifying earnings streams through business expansion

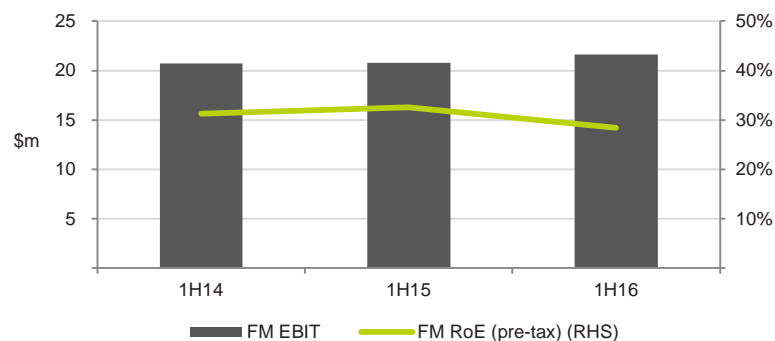
Financial performance (\$m)	1H16	1H15	Change
Fidante Partners net income	41	32	28%
CIP ¹ net income	26	24	8%
Total net income	67	56	20%
Expenses	(45)	(35)	(29%)
EBIT	22	21	5%

Movement in Funds Management EBIT (\$m)



Key metrics	1H16	1H15	Change
FUM (average) (\$bn)	54.8	52.6	4%
Organic net flows (\$bn) ²	0.5	2.7	(81%)
Cost to income (%)	67.8%	62.9%	(490 bps)
RoE (pre-tax) ³ (%)	28.4%	32.5%	(410 bps)

Funds Management EBIT and RoE



1H16 – six months ended 31 December 2015

1. Challenger Investment Partners (CIP).
2. Funds Management 1H16 net flows were -\$4.4bn, and include -\$5.4bn following the sale of Kapstream in July 2015 and +\$0.5bn following the acquisition of Dexion Capital.
3. RoE (pre-tax) calculated as EBIT divided by average net assets.

Funds Management – Fidante Partners

Strong organic flows across range of managers

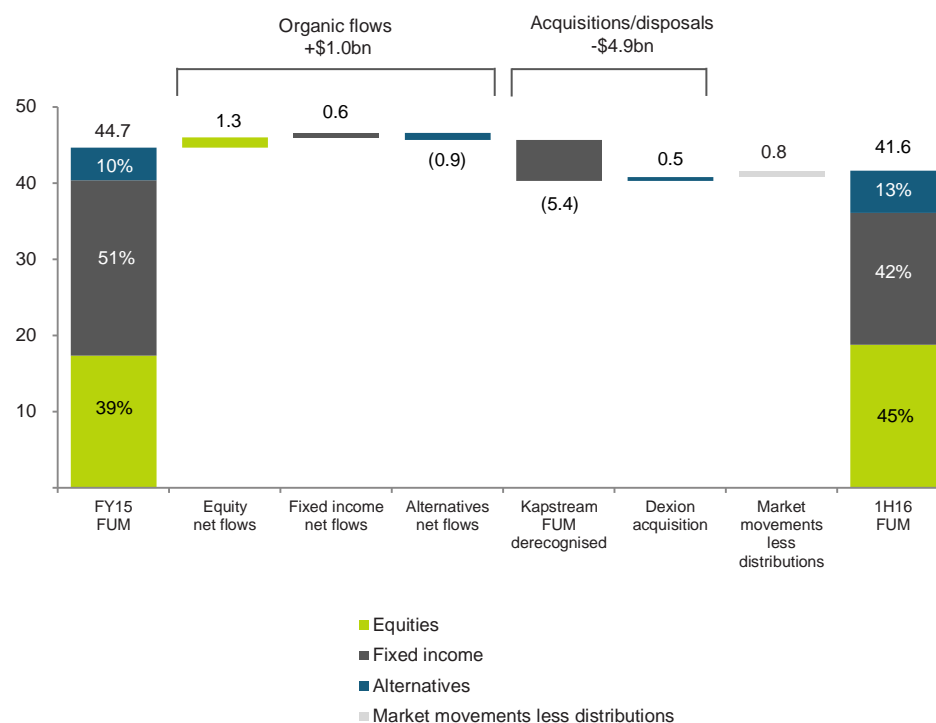
Fidante Partners FUM

- Down 7% including Kapstream sale
- Up 4% excluding
 - Kapstream sale (-\$5.4bn)
 - Dexion acquisition (+\$0.5bn)
- 1H16 organic net flows \$1bn
 - strong equities and fixed income net flows across range of managers
 - alternative outflows due to asset sales

Fidante Partners net income margin

- Net fee income up 29% (\$9m) on 1H15
- Net income margin up 4 bps on 1H15 and driven by
 - derecognition of Kapstream FUM
 - Dexion contribution

Fidante Partners – FUM movement (\$bn)



1H16 – six months ended 31 December 2015

Funds Management - CIP

Net income margin benefiting from new 3rd party mandates

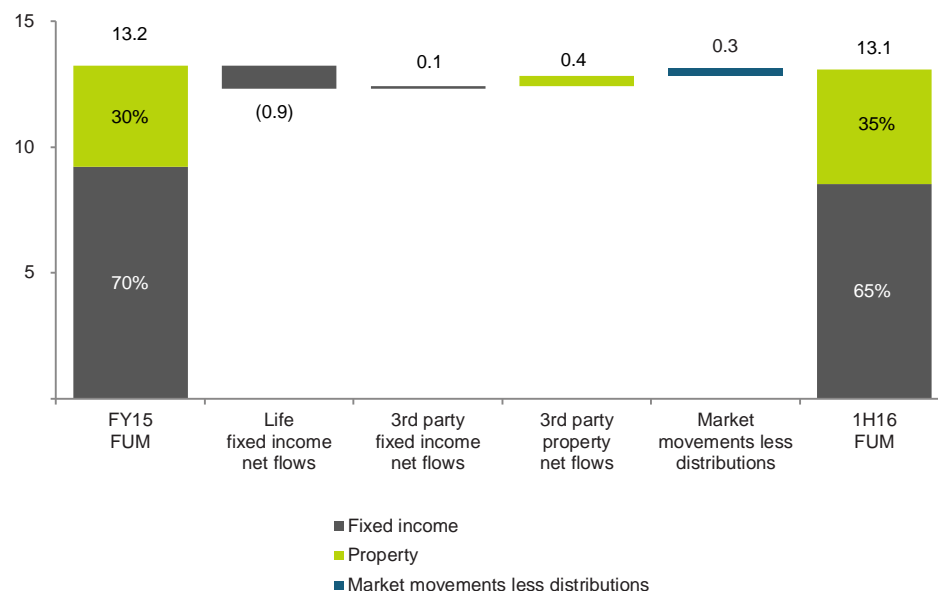
Challenger Investment Partners FUM

- Down 1% in 1H16
 - lower Life fixed income mandate
 - partially offset by new 3rd party property mandates
 - acquisitions of \$0.5bn

Challenger Investment Partners Net income and margin

- Net fee income up 8% on 1H15
- Income margin unchanged on 1H15 at 39 bps
 - higher 3rd party property fees
 - offset by lower performance and transaction fees (down \$1m)

Challenger Investment Partners – FUM movement (\$bn)



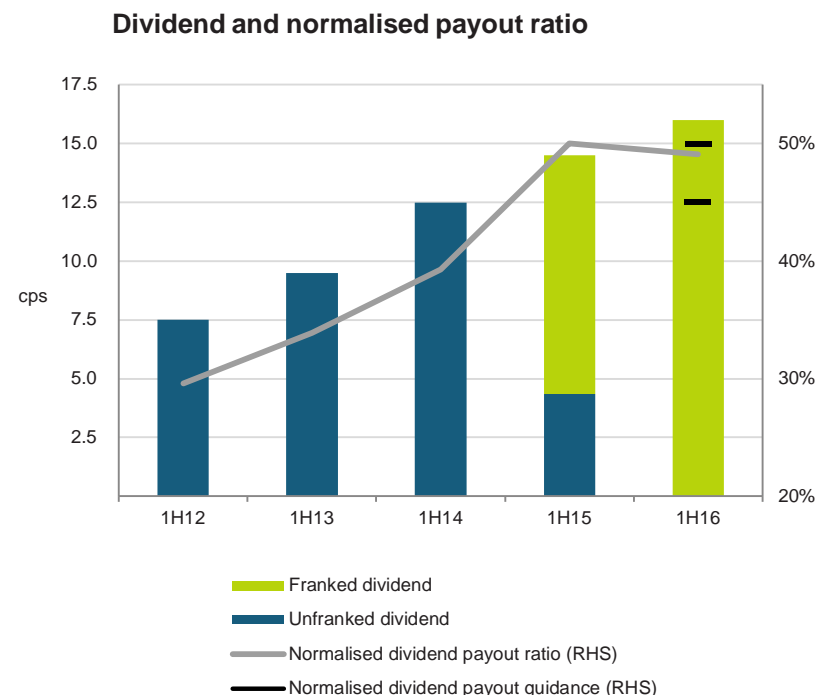
1H16 – six months ended 31 December 2015

Dividends

Interim dividend up 10% and fully franked

Dividends

- 2016 interim dividend 16.0 cps
 - 100% franked
 - up 10% on 2015 interim dividend
 - 49% dividend payout ratio¹
 - payable on 28 March 2016
- Dividend Reinvestment Plan (DRP)
 - established for 2015 final dividend
 - participation rate 7% of issued capital
 - 0.9m new shares issued (at no discount)
 - reduces cash dividend payout ratio to 45%²
- Dividend payout guidance
 - range of 45% to 50% of normalised NPAT³



1H16 – six months ended 31 December 2015

1. Dividend payout ratio based on normalised EPS.
2. Cash dividend payout ratio based on 7% DRP participation rate.
3. Dividend payout ratio and franking levels subject to market conditions and capital allocation priorities.

Strategy and outlook

Brian Benari

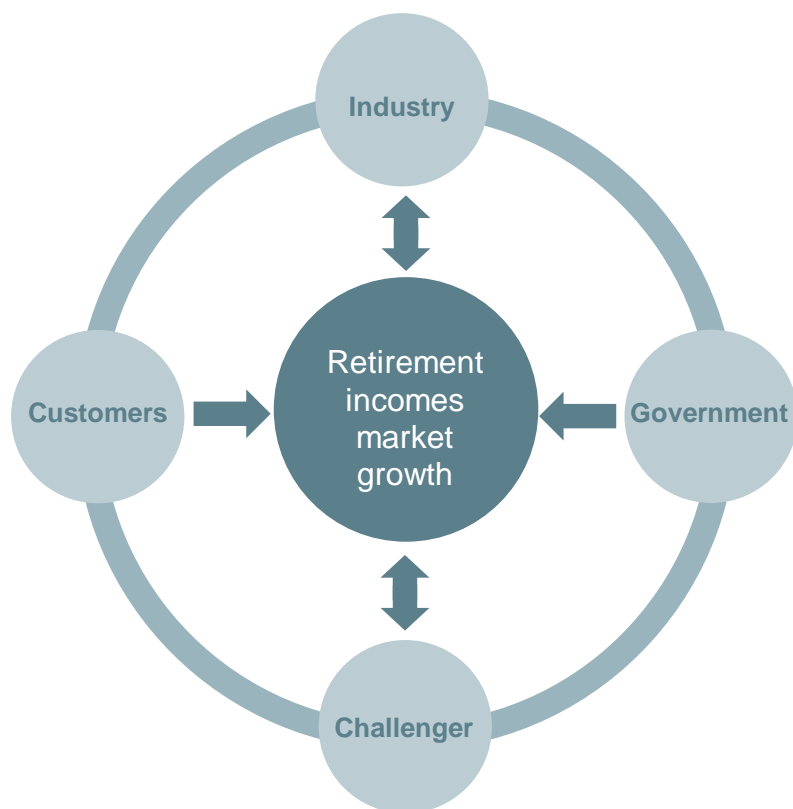
Chief Executive Officer

16 February 2016

1H16 – six months ended 31 December 2015

Life growth

Industry moving ahead of regulation to meet retiree demand



Customers (retirees)

- ✓ Converting savings to income
- ✓ Seeking financial security
- ✓ Adverse to market volatility
- ✓ Want easy to understand products

Industry

- ✓ Adopting income layering
- ✓ Retirement income models emerging
- ✓ Adviser education increasing
- ✓ Seeking efficiencies via technology

Retirement incomes market
growth amplified by demographic changes

Government

- ✓ Tightening Aged Pension access
- ✓ Encouraging self sufficiency
- ✓ FSI recommendations endorsed
- ✓ Other retirement income reforms

Challenger

- ✓ Leading retirement incomes brand
- ✓ Working with industry & government
- ✓ Proven product innovator
- ✓ Building digital connectivity

1H16 – six months ended 31 December 2015

Funds Management growth

Capitalising domestically and increasing global offering

Incubation

5 managers and FUM \$2bn

- Break-even profitability
- Attract initial flows
- Build investment track record
- Limited capital invested

Available capacity >\$21bn

Growth

6 managers and FUM \$33bn

- Mid levels of profitability
- Boutique brand recognition
- Diversifying client base
- Investment performance very important
- Access to retail platforms
- Manage growth profile

Available capacity >\$42bn

Established

5 managers and FUM \$19bn

- Highly profitable
- Significant operating leverage
- Maintain investment track record
- Optimise FUM mix and margins
- Develop new growth strategies
- Business succession planning

Available capacity >\$20bn

1H16 – six months ended 31 December 2015

Outlook

Challenger operating in high growth markets

Life

Targets super spending (retirement) phase

- ✓ Market propelled by demographic changes
- ✓ Regulatory tailwinds
- ✓ Strongly capitalised - top end of target range
- ✓ On track to achieve \$585m - \$595m Life COE in FY16

Market leader in annuities and guaranteed incomes

Funds Management

Targets super saving (accumulation) phase

- ✓ Diversifying revenue through business expansion
- ✓ Enabling global product and distribution
- ✓ Focusing resources on growth opportunities
- ✓ Over \$80bn¹ of available capacity

High RoE business with significant operating leverage

Shareholder outcomes

- ✓ Life COE margin in range of 4.4% to 4.5% for seven consecutive halves
- ✓ Maintaining cost discipline
- ✓ Continuing to meet 18% (pre-tax) RoE target
- ✓ Strongly capitalised – PCA ratio top end of guidance range (at 31 January 2016)
- ✓ Shareholder dividends increasing and fully franked

1H16 – six months ended 31 December 2015

1. Funds Management capacity at 31 December 2015.

Highlights

Driving profit and dividend growth

Operating performance

Strong profit growth of 18% with disciplined cost management

Shareholders

Strongly capitalised and interim dividend up 10%

Life

Strong earnings growth from higher AUM and margin expansion

Funds Management

Diversifying income streams through business expansion

Growth

Life – Industry moving ahead of regulation to meet retiree demand

FM – Capitalising domestically and increasing global offering

Outlook

Challenger operating in high growth markets

1H16 – six months ended 31 December 2015

Appendix

additional background information

1H16 – six months ended 31 December 2015

Vision and strategy

Providing Australians with financial security for retirement

Vision

Provide Australians with financial security for retirement

Strategies

Increase the Australian retirement savings pool allocation to secure and lifetime income products

Be recognised as the leader in retirement income solutions in Australia

Provide clients with relevant strategies exhibiting consistently superior performance

Quality brands, products, service and platforms demonstrating value for money

Drive a diverse culture where our people are highly engaged with a strong risk and compliance focus

1H16 – six months ended 31 December 2015

Business overview

Two core businesses benefiting from super system growth

Challenger Limited (ASX:CGF)

Life

#1 market share in annuities¹

Life – Leading provider of annuities and guaranteed retirement income solutions in Australia. Products offer certainty of guaranteed cash flows with protection against market, inflation and longevity risks.

Includes **Accurium²** - Australia's largest provider of SMSF Actuarial certificates and SMSF retirement specialist

Funds Management

Australia's 8th largest fund manager³

Fidante Partners – co-owned separately branded active fixed income, equity and alternative boutique investment managers

Challenger Investment Partners – originates and manages assets for Life and 3rd party investors

Distribution Marketing and Research (DMR)

Central functions

Operations, Finance, IT, Risk Management, HR, Treasury, Legal and Strategy

1H16 – six months ended 31 December 2015

1. Annuity market share – Plan for Life.

2. Accurium (previously Bendzulla Actuarial) acquired in February 2014.

3. Consolidated FUM for Australian fund managers - Rainmaker Roundup September 2015.

Market opportunity

Competitive advantage in high growth markets

Competitive advantages	Life	Funds Management
	#1 market share in annuities ¹	Australia's 8 th largest fund manager ⁴
	Leader in retirement incomes Recognised market leader by 95% of advisers ²	Contemporary funds management model Model has strong investor alignment & support
	Independent provider Products on all major distribution hubs	Strong investment performance 79% of FUM outperforming over 5 years ⁵
	Retirement incomes core focus Proven product innovator	Diversified investment teams Multiple boutique managers and asset classes
	Technology Innovating to combine annuities with ABPs ³	Strong distribution capability Australian distributor of the year (Zenith - 2015)

1H16 – six months ended 31 December 2015

1. Annuity market share – Plan for Life.

2. Source: Marketing Pulse: Survey of advisers - asked "do you agree with the statement that this company is a leader in providing retirement income products". Peer comparison included AMP, BT, CFS, Fidelity, ING, Macquarie, MLC, Perpetual, Vanguard, Zurich.

3. Account-based pensions (ABPs).

4. Consolidated FUM for Australian fund managers - Rainmaker Roundup September 2015.

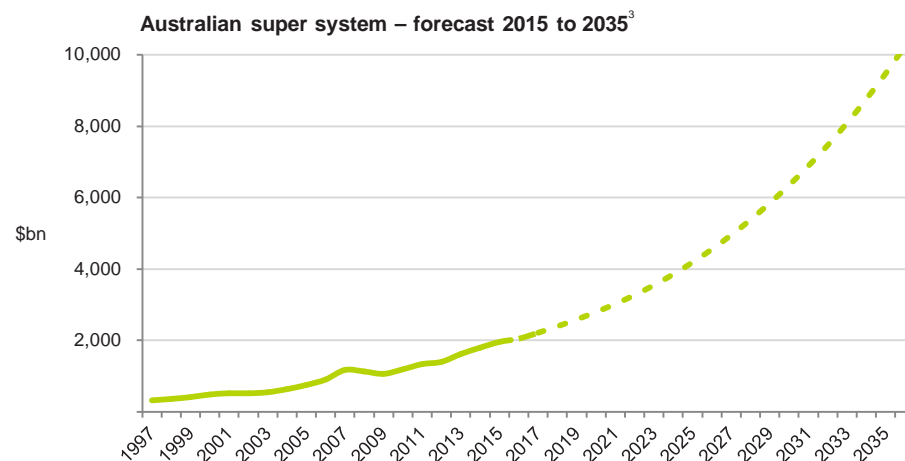
5. Investment performance as at 31 December 2015 for all funds and mandates since inception.

Australia's superannuation system

Attractive market with long term structural growth drivers

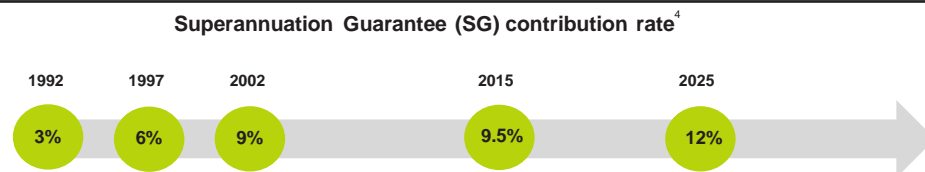
System growth

- Transitioning from public to private pensions
- 4th largest global pension market¹
- Australian super system growing twice speed of global pension market¹
 - 12% CAGR over past 10 years
- Assets expected to
 - double to >\$4 trillion over next 10 years²
 - quadruple to ~\$10 trillion over next 20 years²



Contribution rate

- Increasing from 9.5% to 12% (of wages)⁴
- \$104bn of super contributions in 2015



Demographics

- Supportive demographics from ageing population
- Post-retirement super phase growing fastest
- Australians have one of world's longest life expectancies

Australians over 65s to increase



1H16 – six months ended 31 December 2015

1. Towers Watson Global Pension Study 2015.

2. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.

3. 1992 to 2014 APRA data. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.

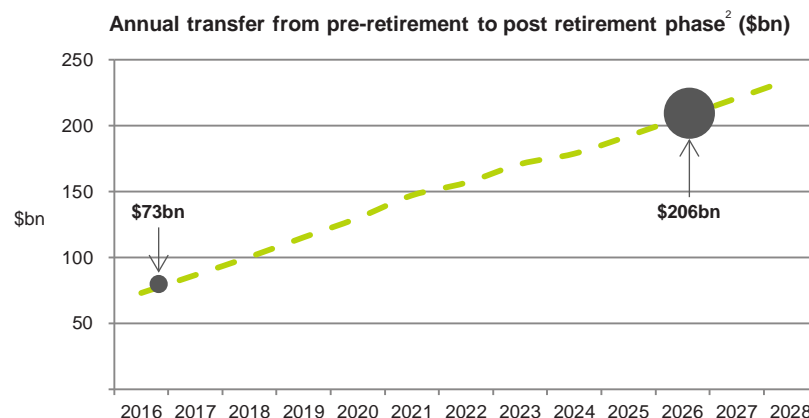
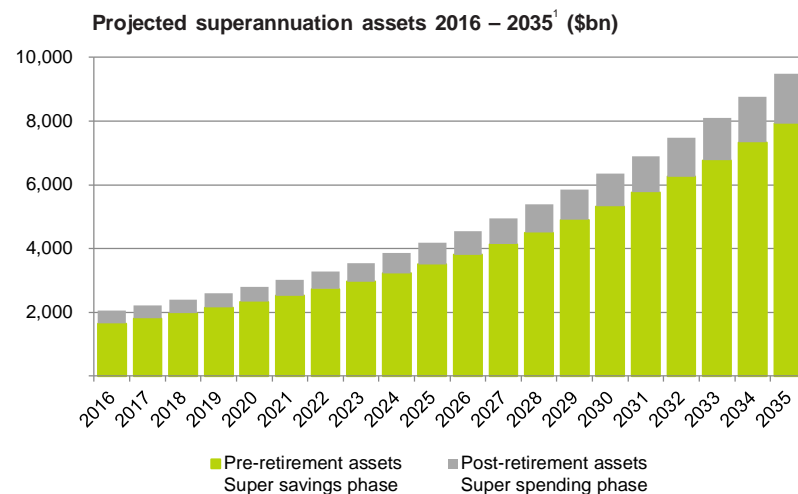
4. Percentage of gross wages required to be contributed to superannuation. Contribution rate increases to 10% on 1 July 2021 and increases by 0.5% per annum until reaching 12% on 1 July 2025.

Australia's superannuation system

Attractive market with long term structural growth drivers

Two distinctive super phases

- Accumulation (pre-retirement) phase
 - super 'savings' phase
 - Funds Management target market
- Retirement phase (post-retirement) phase
 - super 'spending' phase
 - Life target market
- \$73bn moving from accumulation (savings) to retirement (spending) phase in FY17¹
 - increasing at 12% CAGR over next 10 years²
 - benefiting from demographic changes
 - benefiting from higher retirement balances
 - Challenger currently capturing less than 4% of annual transfer to retirement phase
- Industry and government starting to focus on retirement phase



1H16 – six months ended 31 December 2015

1. Deloitte – Dynamics of the Australian superannuation system: the next 20 years 2015-2035.

2. Rice Warner 2014 Super Projections – forecasted growth over next 10 years (based on existing regulatory environment).

Australia's superannuation system

Regulatory reforms underway to enhance retirement phase

Australia has low fixed income allocation

- Australia fixed income and bonds allocation ~9%
- OECD average ~51%

Australia one of the most equitised retirement markets

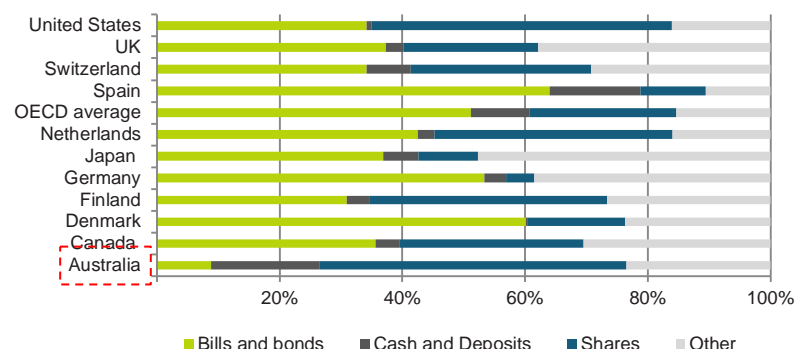
- Australia equities allocation ~50%
- OECD average ~24%

Focus on longevity increasing

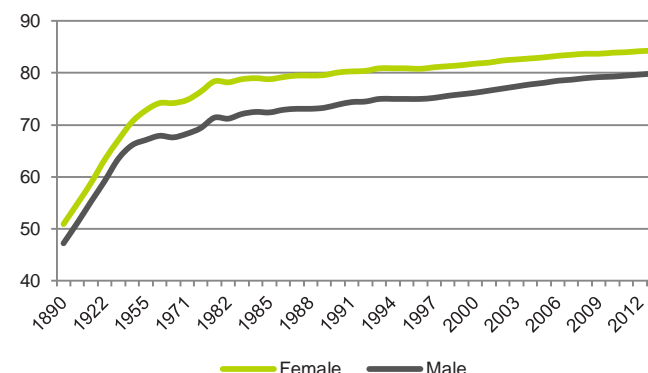
- Australians have one of the world's longest life expectancies²
- Medical and mortality improvements increasing longevity

Focus of super system shifting to retirement phase

Pension system allocation to fixed income equivalents¹



Life expectancy at birth² (\$bn)



1H16 – six months ended 31 December 2015

1. OECD Pension Markets in Focus – 2015.
2. Australian Bureau of Statistics.

Australia's superannuation system

Regulatory reforms underway to enhance retirement phase

Tightening access to Government funded aged pension

- ✓ Age Pension eligibility age increasing
- ✓ Age Pension asset test changes to limit access from 1 January 2017

Financial System Inquiry (FSI)

- ✓ Identified retirement phase of super under developed
- ✓ Recommendations to improve efficiency and boost retirement incomes

Enshrining superannuation objective in law

- ✓ Focus of super system shifting to provision of income in retirement
- ✓ Sets goalposts for policy makers, regulators and industry

Increasing self sufficiency

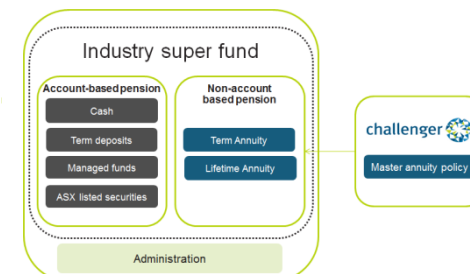
Efficiently convert savings into retirement incomes

- ✓ FSI retirement recommendations supported by Government
- ✓ Implementing Comprehensive Income Products for Retirement (CIPRs)
- ✓ Removing impediments to retirement income development

Comprehensive Income Products for Retirement
(extract from Financial System Inquiry final report)¹



Challenger's CIPR style solution



1H16 – six months ended 31 December 2015

1. Extract from Government response to Financial System Inquiry (FSI) – full report at www.treasury.gov.au/fsi.

Australia's superannuation system

Regulatory reforms underway to enhance retirement phase

Oct
2015

Government supports FSI retirement income recommendations

Government supports FSI superannuation and retirement income recommendations that will improve the efficiency and operation of the superannuation system and boost retirement incomes.

End of
2015

Remove impediments to product development

FSI recommendation 9

Review of Retirement Income Streams

Progress by end of 2015

The range of products available at retirement is currently narrow and does not always meet individuals' needs and preferences.

Government will continue to work to remove impediments to retirement income product development.

End of
2016

Comprehensive Income Products for Retirement

FSI recommendation 11

Consult on legislation by end of 2016

Government supports development of Comprehensive Income Products for Retirement (CIPR) with superannuation trustees pre-selecting these products for members. Will help guide members at retirement and provide increased choice and better protection against longevity and other risks.

End of
2016

Superannuation objective enshrined in law

FSI recommendation 9

Introduce legislation by end of 2016

Government will enshrine objective of superannuation system in legislation to help align policy settings, industry initiative and community expectations. Will report publicly on how policy proposals are consistent with achieving these objectives over the long term.

Start of
2017

Age Pension asset test changes

Legislation passed both houses of Parliament

From 1 January 2017 asset threshold to qualify for part Age Pension reduces from \$1.15m to \$0.82m (for a couple and excludes principal residence). Reform expected to reduce the number of retirees receiving part Age Pension.

1H16 – six months ended 31 December 2015

Life - products

Products provide guaranteed income and peace of mind

Product category	% of total annuity book	Product	Key features
Fixed term annuities	67%	Guaranteed Annuity	✓ Available on leading platforms
		Guaranteed Income Plan	✓ Guaranteed rate and term 1 to 30 years
		Guaranteed Income Fund	✓ Payment frequency options
		Guaranteed Pension Fund	✓ Inflation protection options
Lifetime annuities	22%		✓ Ability to draw capital as part of regular payments
			✓ Tax free income ¹
		Liquid Lifetime	✓ Guaranteed payments
			✓ Inflation protection options
Other	11%		✓ Payment for life
			✓ Withdrawal period (up to 15 years if <75 years)
		CarePlus Annuity	✓ Lifetime annuity for aged care recipients
		CarePlus Insurance	✓ Guaranteed payments
Other	11%		✓ Insurance cover option to provide death benefits
		Guaranteed Index Return (GIR)	✓ Institutional product
			✓ Guaranteed fixed income returns

1H16 – six months ended 31 December 2015

1. If bought with superannuation money and in retirement phase.

Life - customer needs

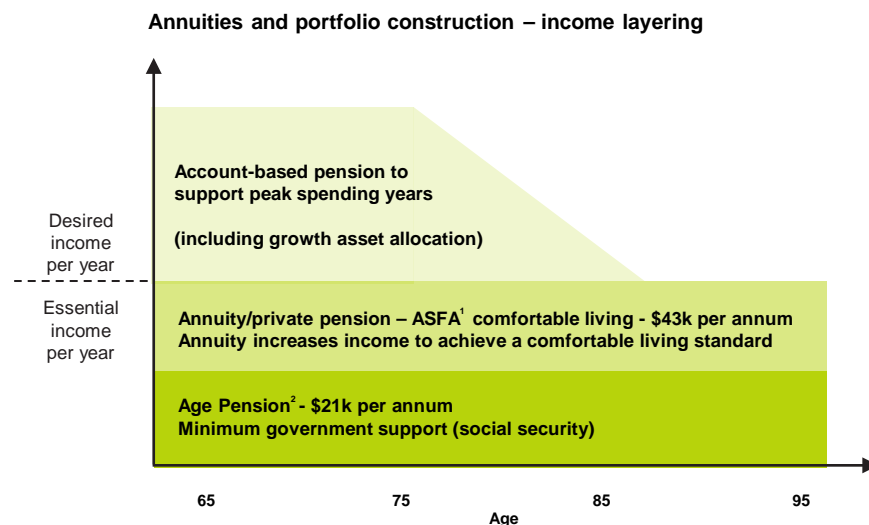
Products provide guaranteed income and peace of mind

Retirees face challenges including:

- maintaining required annual retirement income
- managing market and inflation impacts
- managing longevity risk

Annuities provide:

- stable secure income
- longevity protection
- inflation protection
- peace of mind – cover essential income when combined with Age Pension



Top retiree preferences³

1	Entitlement to Age Pension/health card
2	Easy to understand products
3	Reputation of product provider
4	Ability to access funds
5	Financial strength of provider
6	Tax effective
7	Income lasts as long as I do

1H16 – six months ended 31 December 2015

1. The Association of Superannuation Funds of Australia (ASFA) is the peak industry body for the superannuation sector.
2. Age Pension is income support provided by the Australian government and subject to income and asset tests.
3. Investment Trends Retirement Income Report 2014.

Life - customer demographics

Products provide guaranteed income and peace of mind

1H16 annuitant key statistics

- Average policy amount \$180,000
- Average new customer age 68 years
- Average tenor of new business 5.6 years
- 99% of sales via financial advisers

Annuity sales by customer age



Policy reinvestment rates

- Peak in new business 65-70 years
- Long term reinvestment rate around ~80%¹
- Annuitant reinvests on average 2.4 times

1H16 – six months ended 31 December 2015

1. Reinvestment rate for term annuities with a residual capital value of 50% or more on maturity.

Life - distribution

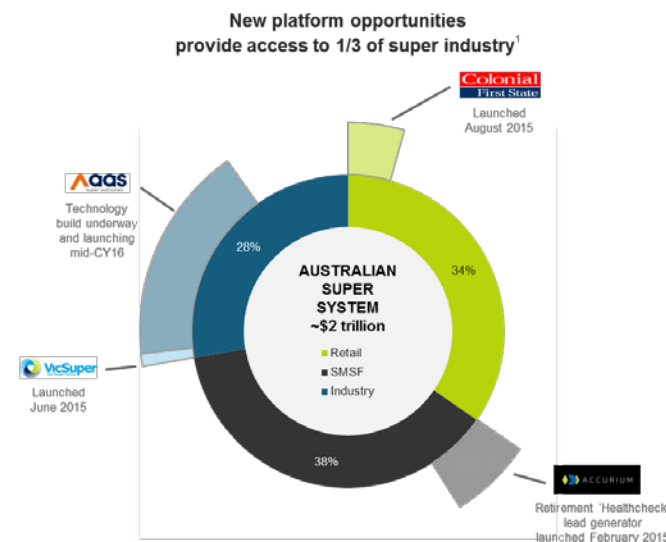
Distribution enhanced through new platform opportunities

Distribution

- Challenger products on Approved Product Lists of all major hubs (major Banks and AMP)
 - major hubs account for ~50% of Australian financial adviser market
 - similar portion of Life's annuity sales
- New platform opportunities – Challenger annuities added to leading platforms
 - Colonial First State – Australia's largest retail platform
 - VicSuper – industry fund with retirement focus
 - AAS – leading industry fund administrator
 - Accurium – SMSF retirement specialist
- New platform opportunities provide access to one third of Australian superannuation industry

Products on Approved Product Lists of major hubs

✓	AMP
✓	ANZ
✓	BT/Westpac
✓	Commonwealth Bank of Australia (CBA)
✓	MLC/NAB



1H16 – six months ended 31 December 2015

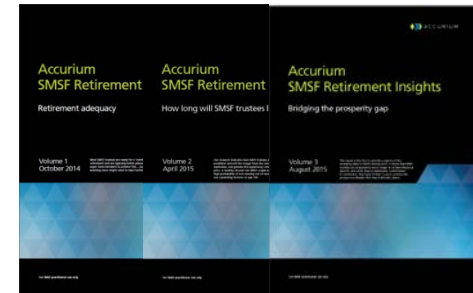
1. Represents either funds under administration/funds under management for each platform/super fund. For CFS, estimated that 70% of total FirstChoice and FirstWrap FUM (\$95bn) is in superannuation products. Total super system FUM excludes public sector and corporate segments.

Accurium

SMSF retirement specialist

Repositioning ahead of accountant licensing reforms¹

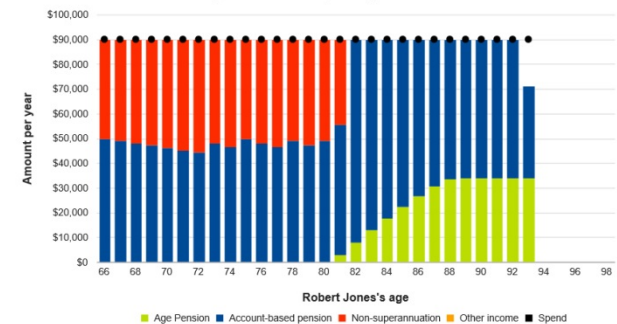
- Repositioned as SMSF Retirement Specialist
 1. SMSF Retirement Insights:
 - ‘Retirement adequacy’
 - ‘SMSF Trustees – healthier, wealthier and living longer’
 - ‘Bridging the prosperity gap’
 2. SMSF Retirement Healthcheck:
 - Launched February 2015
 - Referral tool for SMSF accountants
 - Available to clients with actuarial certificate
 - ~10,000 Healthchecks undertaken since launch



Your retirement sustainability result is:



How your retirement spending is funded



1H16 – six months ended 31 December 2015

1. From 1 July 2016 accountants require an AFSL in order to provide SMSF financial advice.

Normalised profit framework

Reflects underlying performance of Life business

Investment experience

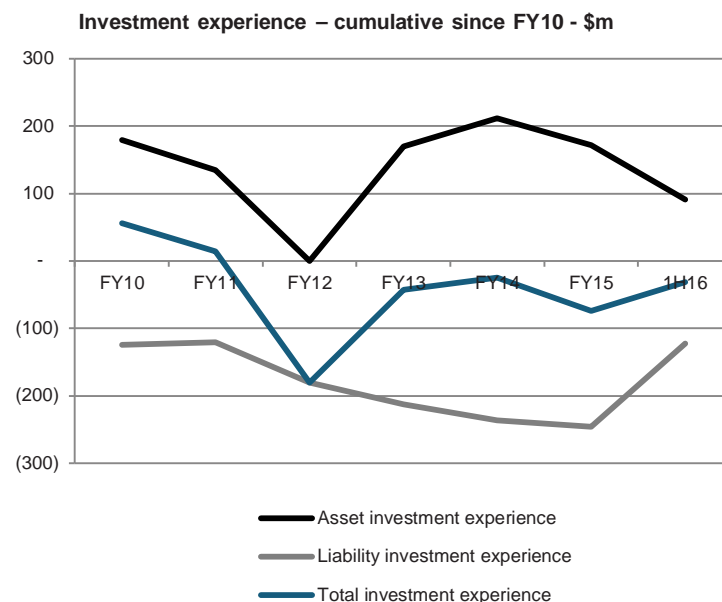
- All assets and liabilities fair valued
- Gains/losses largely unrealised and non-cash
- Reported separately as 'Investment Experience'

Normalised profit framework

- Excludes Investment Experience
- Dividends based on normalised NPAT
- Includes expected long-term asset returns (refer page 40 of 1H16 Analyst Pack)

Investment Experience since FY10

- Asset experience +\$91m
- Liability experience -\$122m
- Total investment experience -\$31m



1H16 – six months ended 31 December 2015

FM - Fidante Partners

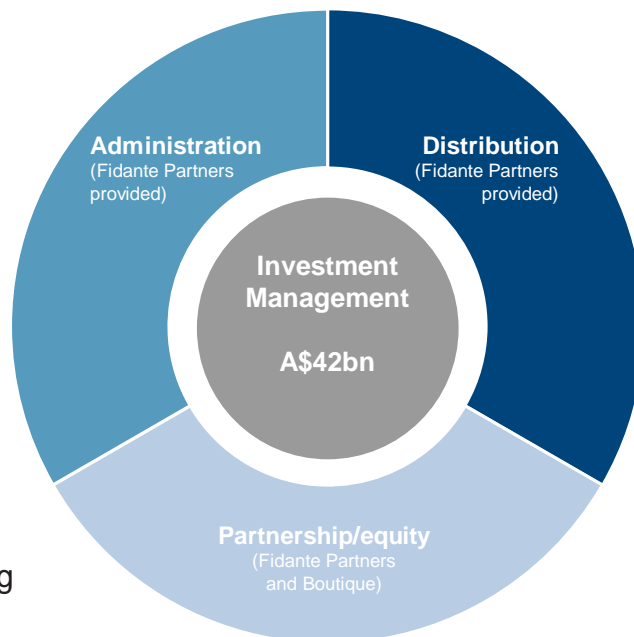
Contemporary model with strong alignment of interests

Administration services

- Investment operations
- Client operations
- Compliance
- IT infrastructure
- Finance
- Human Resources
- Company secretarial
- Facilities

Partnership

- Equity participation (non-controlling interest)
- Business planning, budgeting, strategic development, succession planning



Distribution services

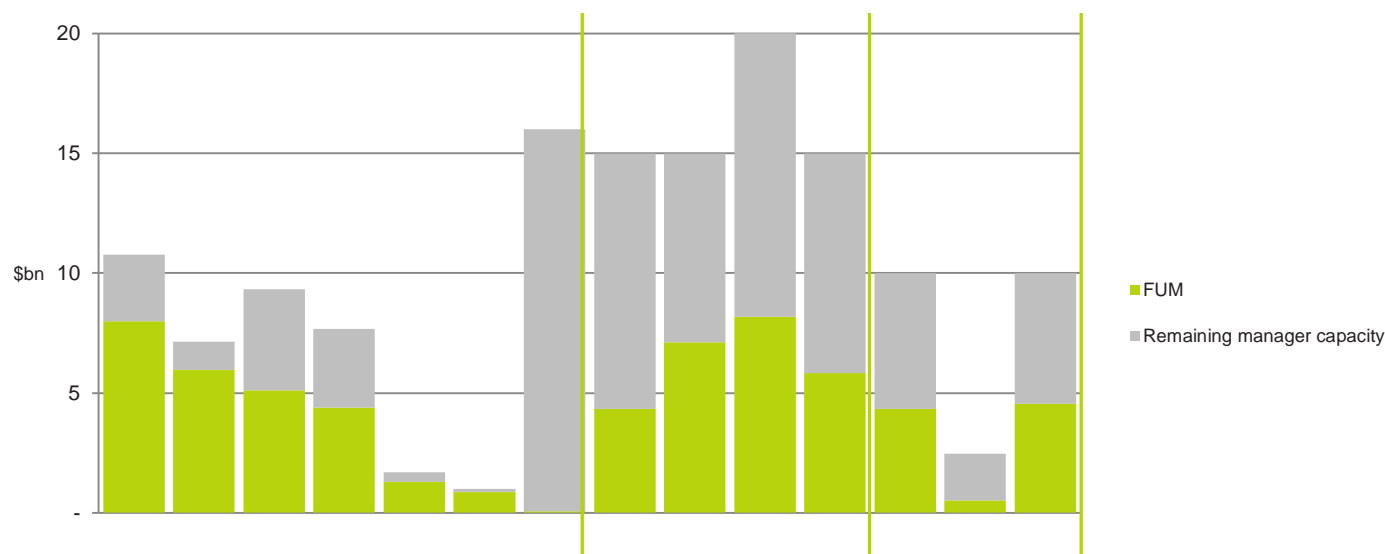
- Asset consultant & researcher relationships
- Strategic positioning
- Product development & management
- Brand development & marketing support
- Sales planning & execution
- Investor relationships
- Client service
- Responsible entity



1H16 – six months ended 31 December 2015

FM - significant manager capacity

Significant manager capacity >\$83bn¹



	Equity Managers	Fixed income Managers ²	Alternative managers ²	Total
Maximum capacity	\$46bn	\$65bn	\$26bn	\$137bn
Remaining manager capacity	>\$27bn	>\$40bn	>\$16bn	>\$83bn

1H16 – six months ended 31 December 2015

1. As at 31 December 2016.

2. Challenger Investment Partners included in both fixed income and alternative managers.

FM - multiple brands and strategies

Scalable and diversified - ~\$54bn¹ of FUM



1H16 – six months ended 31 December 2015

1. Funds Under Management (FUM) as at 31 December 2015 and excludes Arete and Metisq (closed in 2H16).

FM - Fidante Partners boutique managers

Diversification of managers and investment strategies

Boutique	Investment date	Asset class	Boutique	Investment date	Asset class
	July 2015	Agricultural land investment & management		May 2010	Australian equities (income focus)
	Aug 2010	Australian equities		Aug 2010	Australian small and micro cap equities
	Nov 2008	Australian fixed income		July 2015	Renewable energy and water infrastructure
	Jun 2010	Global credit portfolios		Feb 2014	Global smart beta strategies
	Sep 2006	Mid and large cap Australian equities		Nov 2008	Australian equities (long only & long/short)
	July 2015	UK social housing infrastructure		Jul 2014	Global core infrastructure
	Feb 2007	Global fixed income		Jul 2013	US and European RMBS
	Oct 2005	Australian small cap equities			

1H16 – six months ended 31 December 2015

FM - Challenger Investment Partners (CIP)

Proven long-term investment track record and capability

- \$13 billion of FUM¹
- Investment manager for Challenger Life and 3rd party institutions
- Clients benefit from experience and market insights CIP gains through breadth and scale of mandates
- Key relationships with sovereign wealth funds and Australia's leading superannuation funds

Trusted partner for institutional clients

- Local relationships
- Asset origination capability
- Proven track record
- Strong execution
- Risk management expertise
- Excellent client service
- APRA oversight of Challenger Life drives compliance culture

Asset specialisation



Institutional clients

- Sovereign wealth funds
- Australian superannuation funds
- International funds
- International insurance companies
- Pension funds
- Large family offices

1H16 – six months ended 31 December 2015

1. Funds Under Management (FUM) as at 31 December 2015.

Important note

The material in this presentation is general background information about Challenger Limited activities and is current at the date of this presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered with professional advice when deciding if an investment is appropriate.

Challenger also provides statutory reporting as prescribed under the Corporations Act 2001. The half year financial report is available from Challenger's website at www.challenger.com.au. This presentation is not audited. The statutory net profit after tax has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Challenger's external auditors, Ernst & Young, have reviewed the statutory net profit after tax. Normalised net profit after tax has been prepared in accordance with a normalised profit framework. The normalised profit framework has been disclosed in Section 2.2 of the Directors' Report in the Challenger Limited 31 December 2015 half year financial report. The normalised profit after tax has been subject to a review performed by Ernst & Young. Any additional financial information in this presentation which is not included in Challenger Limited's half year financial report was not the subject to independent audit or review by Ernst & Young.

This document may contain certain 'forward-looking statements'. The words 'forecast', 'expect', 'guidance', 'intend', 'will' and other similar expressions are intended to identify forward-looking statements. Forecasts or indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. You are cautioned not to place undue reliance on forward looking statements. While due care and attention has been used in the preparation of forward-looking statements, forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Forward-looking statements including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance and may involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Challenger. Actual results, performance or achievements may vary materially from any forward-looking statements and the assumptions on which statements are based. Challenger disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

Past performance is not an indication of future performance.

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Unless otherwise indicated, all numerical comparison are to the prior corresponding period.